

Voluntary Report - public distribution

Date: 1/21/2005

GAIN Report Number: E35011

EU-25

Grain and Feed

EU to use wheat export subsidies 2005

Approved by:

Norval Francis

U.S. Mission to the EU

Prepared by:

Peter Talks, Dietmar Achilles, Steve Knight and Xavier Audran

Report Highlights:

The European Commission has announced that it will begin using export subsidies for wheat during the remaining five months of the 2004/05 Marketing Year (MY).

This week, the EU launched a procedure so that up to 2 MMT of wheat could receive export subsidies.

This move follows growing market and political pressure for wheat export subsidies following the large 2004 harvest and building EU grain intervention stocks as well as EU wheat's weak competitive position in key North African markets.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E3]

The European Commission has announced that they will grant export subsidies on an initial 2 MMT of wheat. The subsidies will be available from February through to the end of the 2004/05 marketing year in June 2005. The first bids for the export restitutions (subsidies) are to be made by February 3. It is not yet clear how much export subsidy per MT the Commission will decide to grant.

The export subsidies follow months of pressure from both political and grain market sources. The 2004 EU wheat harvest of 136.7 MMT was some 30 MMT higher than the 2003/04 harvest. Faced with declining competitiveness on third country markets due to the strong Euro and good wheat availability from southern hemisphere harvests, much of the surplus could end up in official EU intervention stores, for which farmers receive a guaranteed price of EUR 101.31/MT¹.

In the past week, a further 414,000 MT of grain were offered into intervention, bringing the total for the intervention season which started on November 1, 2004, to 7.367 MMT. Around half of this volume is wheat, 3.56 MMT, the remainder being corn, 2.19 MMT, and barley, 1.61 MMT.

However, much of the intervention grain is in the New Member States (NMS), with 3.47 MMT in Hungary, 0.91 MMT in the Czech Republic and 0.27 MMT in Slovakia. In Hungary in particular, there have been difficulties in disposing of the substantial grain surplus, which is why so much grain has been offered into intervention. None of these three countries have ready (and cheap) access to sea ports, so even with the availability of wheat export subsidies, they may have difficulties in taking advantage of them.

Under EU rules, when export subsidies are granted for grain from free markets, the Commission does not pay for any of the transport costs. Therefore, the export restitution tender announced yesterday will naturally favor exports from regions in France and Germany which are close to, or at, sea ports. For exports from Hungary, traders would have to bear the costs of shipping grain to either Constanza in Romania, Koper in Slovenia, or possibly even Rotterdam in the Netherlands (via barges on the Danube/Rhine river system). This would add perhaps EUR 20 to EUR 30/MT to the cost of Hungarian exports.

However, if the Commission releases intervention stocks for sale on world markets, then the Commission is responsible for paying the transport costs to the nearest sea port – in the case of the NMS likely to be either Constanza or Koper. Should the Commission decide for further measures to ease the grain surplus on EU domestic measures later in the marketing year, then they would probably want to assess either the sale of grain from NMS intervention stores or the subsidization of transport costs from these countries to a sea port.

The last time that the EU used export subsidies for wheat was in May 2003, when subsidies of EUR 15/MT were awarded. In June and July 2003, restitutions were awarded at zero value and wheat restitutions have been suspended since the end of July 2003.

¹ This figure is raised by EUR 0.46 per month from November onwards. The intervention grain (wheat, corn, sorghum and barley) must also meet various quality standards, notably an 11.5% protein content for wheat. The farmer in practice receives less than EUR 101 as they must pay for the costs of transport to the intervention centre as well as the grain cleaning costs.

USDA Official Data, Wheat, EU-25

2002/2003 2003/2004 2004/2005

Wheat

EU-25

Area Harvested (1000 HA)	23314	21882	23217
Beginning Stocks (1000 MT)	14919	16831	9331
Production (1000 MT)	124483	106449	136725
TOTAL Mkt. Yr. Imports (1000 MT)	13921	5912	5000
Jul-Jun Imports (1000 MT)	13921	5912	5000
Jul-Jun Import U.S. (1000 MT)	1267	1597	0
TOTAL SUPPLY (1000 MT)	153323	129192	151056
TOTAL Mkt. Yr. Exports (1000 MT)	19940	10931	15000
Jul-Jun Exports (1000 MT)	19940	10931	15000
Feed Dom. Consumption (1000 MT)	59355	52750	60000
TOTAL Dom. Consumption (1000 MT)	116552	108930	116750
Ending Stocks (1000 MT)	16831	9331	19306
TOTAL DISTRIBUTION (1000 MT)	153323	129192	151056

Source: USDA Official Statistics, www.fas.usda.gov

Visit our website: our website www.useu.be/agri/usda.html provides a broad range of useful information on EU agricultural policy, import rules and food laws and allows easy access to USEU reports, trade and other practical information. More information on the EU Agricultural Policy can be found at www.useu.be/agri/

E-mail: AgUSEUBrussels@usda.gov**Related reports from USEU Brussels:**

Report Number	Title	Date Released
E35005	EU 2005 Agricultural Budget	January 2005
E35004	Forest Law Enforcement, Governance and Trade (FLEGT)	January 2005
E35003	New Voting System in Council	January 2005
E35001	New EU Common Agricultural Policy starts in some EU countries	January 2005
E23201	EU and Morocco reach agri-trade liberalization deal	October 2003

These reports can be accessed through our website www.useu.be/agri or through the FAS website <http://www.fas.usda.gov/scripts/attacherep/default.asp>.